# Green Star Products, Inc.

## Balance Sheets

(unaudited)

| | March 31, 2016 | March 31, 2015 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash | $ 3,812 | $ 4,354 |
| **Other assets:** | | |
| Loans receivable from related parties | 852,807 | 802,754 |
| | $ 856,619 | $ 807,108 |
| **Liabilities and Equity** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses | $ 1,109,315 | $ 1,104,705 |
| Payroll taxes payable | 286,463 | 286,463 |
| Income taxes payable | 86,000 | 86,000 |
| Due to related parties | 587,673 | 579,179 |
| Common stock to issue liability | 87,356 | 87,356 |
| Current portion of notes and loans payable | 77,953 | 77,953 |
| Total current liabilities | 2,234,760 | 2,221,657 |
| **Notes and loans payable**, less current portion | - | - |
| **Stockholders' equity (deficit)** | | |
| Common stock; $.001 par value, 675,000,000 shares authorized, 670,397,447 shares issued and outstanding as of March 31, 2016 and March 31, 2015 | 670,352 | 670,352 |
| Additional paid-in capital | 15,115,282 | 15,115,282 |
| Accumulated deficit | (17,163,776) | (17,200,183) |
| Total stockholders' deficit | (1,378,141) | (1,414,549) |
| | $ 856,619 | $ 807,108 |

# Green Star Products, Inc.

## Statements of Operations

(unaudited)

| | Quarter Ended March 31, 2016 | Quarter Ended March 31, 2015 |
|---|---|---|
| **Operating revenue:** | | |
| Sale of Products | $ 7,210 | $ 425 |
| Consulting Income | 27,300 | 29,760 |
| Sale of equipment | | 3,500 |
| Other income | 2,633 | 2,604 |
| Total operating revenue | 37,143 | 36,289 |
| **Cost of goods sold** | 2,087 | 18,488 |
| **Gross profit** | 35,056 | 17,801 |
| **Operating expenses:** | | |
| Interest expense | 1,219 | 1,483 |
| Consulting fees | 700 | 800 |
| General and administrative expenses | 16,001 | 18,927 |
| Total operating expenses | 17,920 | 21,210 |
| **Net profit (loss) from continuing operations** | 17,136 | (3,409) |
| **Provision for income taxes** | - | - |
| **Net profit (loss)** | $ 17,136 | $ (3,409) |

# Green Star Products, Inc.

## Statements of Cash Flows

(unaudited)

| | Quarter Ended March 31, 2016 | Quarter Ended March 31, 2015 |
|---|---|---|
| **Cash flows provided by (used for) operating activities:** | | |
| Net loss | $ 17,136 | $ (3,409) |
| **Changes in assets and liabilities:** | | |
| **Increase (decrease) in assets and liabilities:** | | |
| Loans receivable from related party | (19,555) | (17,988) |
| Accounts payable and accrued liabilities | 1,218 | 1,483 |
| Total adjustment | (18,337) | (16,505) |
| Net cash used for operating activities | (1,201) | (19,914) |
| **Cash flows provided (used) by financing activities:** | | |
| Due to related parties | 1,375 | 11,500 |
| Proceeds from issuance of common stocks | - | - |
| Net cash provided by financing activities | 1,375 | 11,500 |
| **Net increase in cash** | 174 | (8,414) |
| **Cash,** beginning of quarter | 3,639 | 12,770 |
| **Cash,** end of quarter | $ 3,812 | $ 4,354 |
| **Supplemental disclosure of cash flow information -** | | |
| Issuance of common stock for conversion of debt | $ - | $ - |
| Issuance of common stock for services and consultants | $ - | $ - |

# Green Star Products, Inc.

**Notes to Financial Statements**

**For Quarter Ended March 31, 2016**

(Unaudited)

## Note 1 – Organization and Basis of Preparation

In June of 1992, Green Star Products, Inc. ("GSPI" or the "Company") formerly known as B.A.T. International, Inc. and Subsidiaries entered into a plan of reorganization whereby it was acquired by October Associates, Inc., a Utah public corporation. The name of the Company was changed to B.A.T. International, Inc., and the name was again changed to Green Star Products, Inc. in July of 2002.

Operations through 1994 consisted of designing and developing electric retrofitted automobiles. In early 1995 the Company closed its facilities in Salt Lake City, Utah, abandoned its remaining Utah assets and moved to California where it continued to build electric automobiles through 1998.

The Company's primary focus is in the following areas:

a) The design and engineering of biodiesel reactors and process control systems. Based on the Company's broad experience and knowledge, gained from its involvement of biofuel production, GSPI has designed and engineered a state-of-the-art continuous flow, waterless reactor with a capacity in excess of 10 million gallons of biofuel per year. Combined with its process control module, the advanced technology converts feedstock to biodiesel in minutes (versus one to two hours for the rest of the industry). The system requires minimum maintenance and plant operation staff, and reduces energy requirements by more than 30% over industry standards. In the build-out of a new bio-diesel plant, the integration of GSPI's reactor and process control module will reduce capital cost by more than 50%, when compared to the industry average. After eight years of patent pending status (since 2006), Joseph LaStella, President of Green Star Products, was notified that his high-tech loop reactor patent was issued on February 11, 2014 (US Pat. No. 864209), "Loop Reactor for Making Biodiesel Fuel." The loop reactor is the backbone of the highly efficient biodiesel plant manufactured by Green Star Products. Most present day biodiesel production systems require up to three hours and three different processes to convert feedstock oils through a transesterification process to produce crude biodiesel. The loop reactor does all of these processes in one step in less than five minutes. The issuance of this patent continues to propel GSPI into the forefront of this emerging industry. Although in the United States support for the continued use of biodiesel fuel in markets has been weak, due to high biodiesel feedstock prices, this is not true for the rest of the world. In other countries around the world, fuel prices are twice those of the United States.

b) A consortium formation between GSPI and companies whose relationships include license alliances in the technological, financial and environmental arenas. The consortium projects include biodiesel, ethanol, and crossover proven technologies, which will result in a strategic assembly of "waste and renewable feedstock to energy, fuel, food and chemical staples".

c) The research and development of alternative feedstock for biodiesel and ethanol production. One such alternative is algae, which eat $CO_2$, the biggest global warming gas. The attractiveness of algae is that it can produce up to 100 times more oil per acre than traditionally used agricultural oil crops while not using valuable agricultural land. Also, as a byproduct of the crushing process, algae can provide meal, an important and valuable food source. With its consortium partners, GSPI has assembled a seven-member scientific advisory research team for the continued research of algae and its commercialization use in the production of biodiesel and other products.

d) The development and production of anti-friction metal treatment products. Under the name TVT Green, the Company produces advanced anti-friction lubricants and additives that reduce emissions and improve fuel economy in engines and efficiencies of machines.

**Change in Company Business Strategy and Recent Events**

Because of the economic downturn and the financial crisis that developed in 2008 and 2009, Mr. LaStella formulated a new business strategy to address the changing business environment caused by the economic problems in the United States. This business strategy began in late 2010 and was discussed at the Stockholder's Meeting in January 2011. Primarily, without laying out any significant cash, the Company would take advantage of its market position and technology developments to allow other companies to market and sell its products, license agreements, and technology transfers, to generate on-going revenue. This would only be available to other companies who provide “green and energy efficient products.” In return, the Green Star Products would receive the ability to market their green products through GSPI customer base to generate additional revenue.

On January 4, 2011, Stockholder's Meeting the shareholder base of Green Star Products voted to reverse split the Company stock on a 10 for 1 basis. However, during the end of the first quarter of 2011, the new business strategy was already painting a new business picture for Green Star Products. Mr. LaStella and its new Board of Directors believe that the reverse stock split was unnecessary for the Company because of its future business outlook. Therefore, the new Board requested a Special Shareholder's Meeting to be held on June 4, 2011, to ask for a vote from the shareholder base to cancel the reverse split of the stock because of the improved business outlook of the Company. The cancellation of this reverse split was successful.

From 2010 throughout 2014, Green Star Products entered into the following business arrangements with other companies:

a) In 2011, Green Star Products signed an agreement with Eco Solutions Group for the development and sales of a new product line which would be used for high tech lubrication in the military, police, competition firearms and hunting weapons. The product line has received excellent reviews at several large international shows in 2011 and 2012 and as a result, the product line has been expanded to include other lubricant products. No direct revenues were produced in 2011 and 2012, Eco Solutions has been reorganized and changed its name to Modern Spartan Systems, LLC, (MSS) (http://modernspartansystems.com) and has commenced ordering product in 2013. MSS has been aggressively pursuing markets for GSPI lubricant products as follows: 1) MSS

Accuracy Oil has been verified by many professionals to increase the long range accuracy of military and sporting rifles (rifle barrels). 2) Due to the success of its testing program, MSS in recent months has been able to sign agreements with four arms manufacturers. Specifically, these manufacturers have agreed to include MSS products in their primary sales packaging as a standard product for use with their firearms. 3) Recent tests also include the MSS lubricant effects on the high speed mechanical actions of automatic weapons. One test included firing an AR-15 semi automatic rifle without cleaning the rifle. The AR-15 succeeded in rapid firing 10,000 rounds without a mishap, which is an astonishing accomplishment. 4) MSS has also expanded into the agricultural industry. In 2014, GSPI has delivered a moderate size order (85,000 ounces) to MSS for this market. Furthermore, this order also included the development of new product requested by the agricultural industry, namely TVT Green Grease Formula, which MSS anticipates will develop into a high demand product. TVT Green Water Soluble Machining Cutting Oil is used primarily in CNC automated machining and turning centers as a coolant, to reduce friction and to extend the life of tooling. This very expensive CNC equipment comprises the bulk of the international industry which is an enormous potential market. In December of 2014, the company embarked on a test marketing program to introduce this product to 100 machine shops in the western United States, 30 of which have already agreed to test TVT Green. Many of these are large machine shops supporting corporate manufacturing, as well as, government programs at NASA and military facilities. We expect the program to be completed in 2016, and we look forward to positive feedback. Based on these marketing results we can further expand our program to other US regions. GSPI is presently delivering product to the USA and China and expects 2016 to be a banner year for these products. Green Star is also in the process of expanding the production facilities for TVT Green products in anticipation of larger orders in 2016.

b) In late 2010, Green Star Products signed a contract with Innovasol LLC for an exclusive licensing arrangement to sell our TVT lubricant products to the railroad industry and highway vehicles exclusively. For 2010, the licensing agreement generated $50,000 of fee income for the Company and resulted in the sale of $37,000 of TVT product to Innovasol. There has been no further activity from Innovasol, LLC. In 2011, Green Star Products signed a contract with Innovasol Coatings, Inc., for the sale and installation of SPI Coatings (SPI). In addition, the Company acquired a 19% equity interest in Innovasol Coatings. No income was generated from Innovasol Coatings in 2011. There has been no further activity from Innovasol Coatings.

c) In 2011, Green Star Products signed a distribution agreement with SPI which manufactures special industrial coatings. Since 2011, Green Star Products has pursued the sale of these coatings in the United States, China and other countries. While there was no sales revenue generated in 2012 through 2015 for Green Star Products from SPI, testing in other countries and the US have shown very positive results and the Company expects orders for these industrial coatings during 2016. GSPI has commenced to deliver initial smaller orders to Asia during 2013. GSPI has concentrated heavily in introducing these products to China. GSPI has maintained an office in Beijing (China) over the past four years. The Chinese marketplace has been difficult to break into because they do not accept most of the test work done by laboratories outside of China and/or

outside government entities. Working in the United States and China, Green Star has been deeply involved in assisting private firms and government agencies in successfully completing these tests. To date, we have passed many of these trials and we anticipate 2016 as being a significant revenue producing year for our China market. GSPI has been delivering minor orders to China and recently has participated in the significant delivery of product to a major Asian client through our China representative. GSPI anticipates much larger orders in 2016 through the completed successful test and demonstration programs which we have diligently pursued during the past couple of years in China.

d) GSPI signed a contract in the fourth quarter of 2014 to provide consulting and engineering services for an electric automobile company. This contract, which is presently in effect, produced revenue for our company in 2014 and 2015. We expect a contract extension for this engineering and consulting work to be awarded to GSPI for all of 2016.

In 2015, the Company's algae technology continued to move forward. Green Star Products and its consortium partners have long researched the viability of developing high-tech closed reactor systems to produce algae oil. The research by the Company and its consortium partners now includes the production of algae oil under three major commercial types of construction facilities.

1) The Hybrid Algae Production System (HAPS) technology, which was developed for the production of algae oils and biomass primarily for commercial fuels and food.

2) In June 2012, the Company, along with its consortium partners, announced a second area of research, involving the production of omega-3 oils for the consumption of livestock, aquaculture and humans. Omega-3 oils, especially DHA, are now featured in many retail food stores in foods, beverages and supplements. The DHA industry has a huge growth potential and the Company has been negotiating with potential partners in the United States, European Union and Asia. Green Star Products, along with its consortium partners, has acquired some primary equipment for the construction of a DHA facility.

3) The third area is the research and production of a facility utilizing specialized forms of algae to consume waste products in diverse waste streams which include municipal waste and other types of commercial waste. Efforts have been concentrated on waste streams from biogas plants and also agricultural facilities such as swine farms. These commercial facilities unfortunately release waste products that can easily exceed 50-to-100 times the amount of concentration of these pollutants normally seen in municipal waste. In October 2012, the Company announced that it had signed an agreement to immediately start phase one to develop and construct a demonstration facility to handle these waste streams with high concentrations of urea, ammonia, phosphates and other undesirable products. Urea, ammonia and phosphates, considered waste products, are exactly some of the major feedstocks that are required for growing algae. Therefore, this type of technology not only reduces the loading of waste products into the environment but also will produce valuable products, algae biomass and algae oils. Phase one development has been delayed due to change in ownership of several other corporate participants in this project. However, we do anticipate moving forward in this area in the future.

4) Green Star Products has continued to be active in the algae production business. In the fourth quarter of 2014, GSPI signed a contract to build a large proprietary demonstration Hybrid Algae Production System (HAPS) facility for a third party to produce commercial quality algae. This contract is very specific for GSPI to build and operate the HAPS system. However, the algae strains to be cultivated will be provided by another third party and the final algae biomass commercial product will be delivered to the original client for analysis and utilization. The facility is a premium showcase algae pond system located near South Las Vegas Boulevard in Las Vegas, Nevada. This project is strictly a commercial research demonstration unit funded by the client using Green Star technology. The HAPS presently under construction by GSPI is approximately 70,000 liters capacity of algae growth media. Green Star has retained the rights to showcase this project to our Chinese partners. They are considering building larger Hybrid Algae Production Systems in China for use in animal and human food, bio fuels and hydro carbon based materials, while $CO_2$, the main nutrient for growing algae, is absorbed from the atmosphere, cutting net carbon emissions.

Green Star is continuing its business plan in the USA, China and Europe. The company continues its research and development for intellectual property and production of algae, lubricants and specialized advanced coatings.

*Forward-looking statements in the "Notes to Financial Statements" which are not historical facts are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements involve risks and uncertainties that could render them materially different, including but not limited to, continued acceptance of the Company's products, the risk that competitors will develop similar products or reach the market first, the risk from increased levels of competition and/or unfair competition, the risk that we would not be able to fund working capital needs from cash flow, dependence on third-party suppliers, and other risks detailed from time to time in the Company's periodic filings.*

**Note 2 – Loans Receivable from Related Parties**

A summary is as follows:

| | March 31, 2016 |
|---|---|
| Joseph P. LaStella, President | $ 550,591 |
| Consortium Partners | 302,216 |
| | $ 852,807 |

**Joseph P. LaStella, President**

Joseph P. LaStella is the inventor of technologies which are the subjects of numerous patent applications filed with the U.S. Patent and Trademark Office for the continuous flow method and apparatus for making biodiesel fuel and a system for the removal of methanol from crude biodiesel fuel. Mr. LaStella assigned his patents in 2001 to Bio-Clean Fuels ("BCF") and under a royalty agreement with BCF is able to personally borrow up to $100,000 a year from BCF or "downline licenses", which includes Green Star Products, Inc., against present or future royalties. Under the royalty agreement, Mr. LaStella is to receive

a gross royalty of ¼ % of all produced products using his patented technology which will be the source of repayment for any such borrowings. His patented technology was used in the biodiesel refinery line that the Company built and installed for Inland Empire Oilseeds, LLC in Odessa, Washington.

**Consortium Partners**

In 2006, the Company and its consortium partners, Idaho Sustainable Energy and Biotech Research, begin to research algae as an alternative feedstock for the production of biofuel. The research included the testing and selection of algae strains, growth boosters and physical environments most suitable for the optimum production of algae oil. The research was extended to the field by the completion of a 100,000 liter microalgae demonstration facility in Montana in 2007, which was one of the largest built in the US at that time. The demonstration facility tested the ideal physical environment for algae growth and a production system for the harvesting and extraction of algae, known as the Hybrid Algae Production System (HAPS), which is patent pending. The Company is planning to advance the knowledge gained from the above research and to implement the HAPS on a 500-acre parcel, which would represent the initial phase of a commercially viable project. Since 2009, Green Star Products has remained very active in the algae to biodiesel area with its Consortium Partners and has endeavored to pursue algae based biodiesel. During the year 2009, the Consortium Associated Partners in conjunction with Green Star Products responded to several requests for proposals from the federal government which included the US Department of Energy (US DOE) and US Department of Agriculture (USDA). These proposals, the largest of which was for $24 million dollars received excellent reviews by the DOE and advanced significantly during the evaluation proceedings up to the oral presentation level, which is a high level of acceptance by the federal government for issuing final approval for funds. Although the reviews were very positive we did not obtain any funding due to, in the opinion of many experts in the area, low value (trivial) rejection items. The Consortium was encouraged to resubmit the proposals during the next requests from the federal government.

During the first quarter of 2012, Green Star Products in conjunction with its Consortium Partners submitted three proposals to the DOE under the ARPA-E program entitled “DE-FOA-0000670 Open Funding Opportunity Announcement”. This request for proposals addresses technologies which are viewed as cutting edge, next generation technologies. The three proposals totaled $11.5 million in potential funding and were submitted before the dateline date of April 12, 2012. Green Star Products decided not to proceed and submit a full engineering application because of: a) intellectual property considerations, b) the extensive time and costs required to submit a full engineering application for this project, c) the relative minor funding allotted for these programs. GSPI is still preparing to enter into additional funding proposals offered by the government.

**Note 3 – Investment in Inland Empire Oilseeds, LLC**

On August 27, 2007, Green Star Products, Inc. entered into a purchase contract with the Odessa Public Development Authority (“OPDA”), for the purchase of Green Star Products’ proprietary “continuous flow biodiesel reactor and control system”. The third party beneficiary of this Contract is Inland Empire Oilseeds, LLC (“IEO”), which is OPDA’s private industry partner and the manager of the project located in Odessa, Washington.

Under terms of the agreement, Green Star Products provided the equipment, engineering and installation of a biodiesel refinery line, with a production capacity of 8,000,000 gallons of ASTM 6751 biodiesel a year. In addition, Green Star Products acquired a 15.8% interest in the IEO partnership for $1,100,000.

The Inland Empire Oilseeds LLC (IEO) biodiesel plant in Odessa, Washington, first came online in November 2008. IEO is a vertically integrated company and sources its feedstock within Washington and neighboring states, crushes seed and produces its own biodiesel.

The proprietary continuous flow reactor built by Green Star Products is responsible for turning raw oils and methanol catalyst through a transesterification chemical process into biodiesel.

The Odessa plant is one of the few plants in the United States which is capable of processing raw seed grown by local farmers directly into biodiesel. Approximately 90% of all the biodiesel plants in the United States do not have crushing facilities and are totally dependent on often irrationally high international vegetable oil prices. Such a plant should be looked at by the local community not as an initial money making proposition but as an insurance policy that extends forever for local farmers so they will never be held hostage to foreign oil.

In 2009, Green Star Products interest was reduced to 10.2% in relation to additional capital investment into the project. However, because of the continued high costs for feedstock oil for the entire biodiesel industry, the entire industry is almost shut down. The Odessa facility has gone through a series of serious financial problems. The present status of the facility is unknown to Green Star Products, and GSPI has forwarded protest documents to IEO for clarification of their on-going proceedings.

**Note 4 – Accounts Payable and Accrued Expenses**

A summary is as follows:

| | March 31, 2016 |
|---|---|
| Accounts payable | $ 136,603 |
| Accrued interest | 222,712 |
| Deferred compensation payable – J. La Stella | 750,000 |
| | $ 1,109,315 |

**Note 5 – Payroll Taxes Payable**

Payroll taxes payable consists of withheld payroll taxes from 1994 (which were not assumed by B.A.T. California, Inc.). The Company attempted to negotiate a settlement with the Internal Revenue Service but has not received any correspondence for the past seven years. To the extent such a settlement cannot be reached, the president of the corporation may become personally liable for a portion of such taxes.

**Note 6 – Notes and Loans Payable**

A summary is as follows:

| | March 31, 2016 |
|---|---|
| Environmental Research | 16,900 |
| Robert Deutsch | 4,796 |
| Robert Feldhake | 28,947 |
| Dennis Mahoney | 30,000 |
| Dolphin Automotive Company, Inc. | 47,342 |
| Environmental Research Trust | 70,950 |
| Dolphin | 90,315 |
| BKS Energy, LLC | 83,975 |
| Idaho Sustainable Energy, LLC | 248,141 |
| Other various note payables | 42,260 |
| Total | $ 665,626 |

**Note 7 – Executive Compensation Agreement**

On February 17, 2011, Joseph P. LaStella, president of the Company since 1992, entered into a compensation agreement with GSPI for his past and future services. Over the past 19 years Mr. LaStella never had a formal compensation agreement in place with the Company.

A summary of the terms of the agreement is as follows:

a) Mr. LaStella's annual salary, beginning 2011, will be $200,000 and continue through 2015 at which time it will be renegotiated.

b) Mr. LaStella will have a stock option to purchase 110 million shares of GSPI stock at a price equal to one-third (1/3) of the market value as of the closing price on February 11, 2011 (which has been fully exercised by him). In addition, the Company will make available to Mr. LaStella a stock loan for the purchase of the stock.

c) He will receive 5% of the gross revenues produced from any future programs developed by him to increase the Company's revenue, provided the programs remain in effect with GSPI.

d) Future Intellectual Properties (IP) developed by Mr. LaStella will be negotiated on an individual basis if and when the IP proves successful in commercial operations.

In August, 2012, and March, 2013, Mr. LaStella returned 23 million and 15 million shares of GSPI stock, respectively, to Treasury for the purpose of providing the Company with a funding source.

Effective October 1, 2014, an amendment to Mr. LaStella's compensation agreement ended his current salary arrangement. The amendment further stated that a new compensation agreement would be renegotiated in 2015 (or later).